INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 25 October 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the new monthly pace of €15 billion until the end of December 2018. We anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Incoming information, while somewhat weaker than expected, remains overall consistent with an ongoing broad-based expansion of the euro area economy and gradually rising inflation pressures. The underlying strength of the economy continues to support our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after a gradual winding-down of our net asset purchases. At the same time, uncertainties relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.4%, quarter on quarter, in both the first and the second quarter of 2018. Incoming information, while somewhat weaker than expected, remains overall consistent with our baseline scenario of an ongoing broad-based economic expansion, supported by domestic demand and continued improvements in the labour market. Some recent sector-specific developments are having an impact on the near-term growth profile. Our monetary policy measures continue to underpin domestic demand. Private consumption is fostered by ongoing employment growth and rising wages. At the same time, business investment is supported by solid domestic demand, favourable financing conditions and corporate profitability. Housing investment remains robust. In addition, the expansion in global activity is expected to continue supporting euro area exports, though at a slower pace.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. At the same time, risks relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent.

Euro area annual HICP inflation increased to 2.1% in September 2018, from 2.0% in August, reflecting mainly higher energy and food price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level over the coming months. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to pick up towards the end of the year and to increase further over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth stood at 3.5% in September 2018, after 3.4% in August. Apart from some volatility in monthly flows, M3 growth is increasingly supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The growth of loans to the private sector strengthened further, continuing the upward trend observed since the beginning of 2014. The annual growth rate of loans to non-financial corporations rose to 4.3% in September 2018, from 4.1% in August, while the annual growth rate of loans to households stood at 3.1%, unchanged from the previous month. The euro area bank lending survey for the third quarter of 2018 indicates that loan growth continues to be supported by increasing demand across all loan categories and favorable bank lending conditions for loans to enterprises and loans for house purchase.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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Did you discuss downgrading your risk assessment to tilted to the downside? What were the main arguments for and against in the discussion?

Second question is about Italy, as you can imagine. In the past you said, "Look at the facts and not the words", but the facts have been coming in and then haven't been that good. There's a budget in breach of EU rules; it's been rejected by the Commission. Now with facts on the table, what is your assessment now?

Let me answer the first question; it will require a little time. By and large, the Governing Council discussions you've seen from the introductory statement confirmed the balance of risks and of course didn't take any decision on monetary policy. There was acknowledgement of a somewhat weaker momentum, but in the midst of most eurozone countries – which still have positive output gaps, and slightly expansionary and sometimes in some cases pro-cyclical fiscal policies in some countries. We're talking about a weaker momentum, not a downturn. This is clearly certified by most survey indicators that have come out since the last time we met. But these indicators remain above – and in some cases well above – historical averages and certainly is certified by slower growth. Then the issue is: what are the reasons behind this weaker momentum and these weaker survey indicators? Here we go into a variety of explanations, one of which certainly is country-specific factors; so-called idiosyncratic phenomena. Think about the car sector in Germany. This is having quite a powerful effect for this quarter but not next quarter.

The second is the export performance. Last time we discussed the export performance saying that last year, 2017, had an extraordinary export performance. Now we're coming back to normal and so we had a decline in exports that seems now is reflected in the current weaker momentum, but seems now to have come to a halt. Then of course we have trade uncertainties. We have the stalemate between US and China, with Brexit, with Italy, with financial market volatility, so a bunch of uncertainties. Then we have perhaps the one important part of the explanation; it's simply that we're having growth returning to potential after 2017, where it was clearly above potential.

It's not simple here to distinguish what is transitory from what is going to be permanent, what is country specific from what is extended to the whole of the euro area. What is actually having an impact on consumption and investment and what is not having an impact. For one thing, we still observe consumption; pretty strong, buoyed by an expanding employment, an expanding labour market, rising wages and so business investment. Also the emerging market economy situation seems to have stabilised somehow. All in all, the assessment of the Governing Council was, yes, there is a weaker momentum. Yes, there are weaker survey data coming out and maybe some more expected in the future. But is this enough of a change to make us change the baseline scenario? The answer is no. These risks are not being considered at this point in time enough to change the balance of risks. Now, of course we'll have to see the projections in December and that was also one other consideration. I will elaborate on inflation and monetary policy later.

On Italy, you have to remember that Italy is a fiscal discussion, so there wasn't much discussion about Italy. As a matter of fact, the Vice-President, Dombrovskis, was there and basically, I asked him permission to quote him, to quote what he said. He said, “Of course we have to observe and apply fiscal rules but we're also seeking a dialogue”. I think that's what it is, but then I could answer other questions about the facts.

Still again about Italy. I would like to refer to your recent statement that the Italian situation was not posing any risks of contagion. My question is whether you confirm this statement or whether it has changed.

No, I didn't say there wasn’t any risk of contagion; I said at that point in time there was no sign of contagion. It's different.

Okay, let me also respond to the other part of the question I was asked before about; what are the facts? First let me say, what's the context. The context of our discussion today was, as I said before, the statement by the Vice-President of the Commission, who said of course he has to apply fiscal rules but he's also seeking a dialogue. The second point of context is what I said in the previous press conference in the IMF, during the course of the IMF meetings, is that I'm personally – and that's a personal perception so take it for what it's worth – I am confident that an agreement will be found.

Now let me come to the facts. Interest rates have come up and are coming up. That means the lending rates are going up still moderately, I should say, for households and for firms. It means that households will have to pay more for borrowing from banks and so do companies. Of course in the case of companies that finance, fund themselves issuing bonds, the pass-through from the capital markets to the bond market – to the corporate bond market – is obviously faster. For them, the increase in borrowing rates has been more marked and quicker. Now, all this likely means that it will have effects on credit and ultimately on growth and, by the way, on the very same space that is needed for fiscal expansion. In a sense, if the interest rates keep on going up, the room that is available to expand the budget gets smaller.

As I said, the increases in interest rates have been there now for a while. We've analysed it both from surveys and through direct evidence; these increasing rates. But these increasing rates are not so far – at least banking rates – are not significant, or not material. However we have now the bank lending survey of this quarter. It does say that basically, terms and conditions applied by Italian banks on new loans to enterprises and households for house purchases, tightened. Terms and conditions – so not standards – terms and conditions tightened in the third quarter of 2018, driven by a higher cost of funds and balance sheet constraints.

Now, what about the spillovers? Since the last time I spoke about this, we have observed some increase in interest rates in some other countries, or non-core countries, let's call them this way. Again it's not material but it's been there. And so again the issue is: what's the cause of them; because these countries themselves had specific idiosyncratic phenomena, facts, events that may justify, and have been estimated to justify, some increase in rates. So far we reached I think the conclusion that it's kind